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SUBJECT: DEFENSE SPECIAL BUDGET: OPTIONS FOR RECONFIGURATION

REF: A. TAIPEI 3551

[B](#). TAIPEI 4159

[1](#)1. (SBU) Summary. The Defense Procurement Special Budget is stuck in legislative limbo until at least the December 3 Taiwan local elections. Government and opposition leaders offer varying explanations about what changes are, or are not, possible. As the U.S. seeks to understand and influence Taiwan's defense modernization, the budget process could be a major limiting factor. With that in mind, we have consulted with a variety of local experts to understand how the Taiwan budget process works. End Summary.

[1](#)2. (SBU) The Executive Yuan (EY) has submitted two bills to the Legislative Yuan (LY) containing funding for major new defense purchases. The Defense Special Budget provides funding for submarines and P-3C maritime patrol aircraft. The regular 2006 Defense Budget includes among other items funding for PAC-III missiles.

[1](#)3. (SBU) According to the Taiwan Budget Law (Article 83), the EY is charged with submitting the annual government budget to the LY for approval. The EY may submit a separate "special budget" for major administrative programs covering a period longer than one year, as well as in the event of war/national emergency, major economic change, or disaster. Whereas LY members may normally propose bills on their own, in addition to or in lieu of EY-proposed bills, only the EY may make budget proposals to the LY.

Defense Procurement Special Budget

[1](#)4. (SBU) A special budget bill, just as any submitted legislation, goes first to the LY Procedure Committee, which votes whether or not to place the bill on the LY agenda. (The Defense Special Budget has never been placed on the LY agenda, having been rejected by the Procedure Committee thirty-four times over the past year.) If passed, the bill then goes to the LY floor for a first reading and referral to a committee for review and amendment, a Joint Committee of the Defense and Budget Committees in the case of the Defense Special Budget. If the committee approves a draft bill, it is then returned to the floor for two additional readings and a final vote.

[1](#)5. (SBU) Until any bill, including budget and special budget bills, is placed on the LY agenda, the government can withdraw it at any time, reconfigure and resubmit it. The time required to reconfigure a special budget depends on the complexity of the change; the relatively simple alteration of the Defense Special Budget in August separating out the PAC-III missiles took about two weeks. (Comment: While AIT has been told by senior government officials that rewriting the Defense Special Budget would require a minimum of eighteen months, there is no legal or regulatory basis for this estimate, and the quick deletion of the PAC-III missiles in August proves there is no such minimum. End Comment.)

[1](#)6. (SBU) If the Defense Special Budget were to be placed on the LY agenda, the only changes that legislators could make would be to reduce the amount of the proposed budget. According to Article 70 of Taiwan's Constitution and the Grand Justice 264th Ruling in 1990, the LY can cut, but cannot increase, a proposed budget or special budget proposed by the EY.

Regular Defense Budget

[1](#)7. (SBU) The regular defense budget is submitted as a part of the Government's regular annual budget at the opening of the fall LY session. By law, the budget must be approved by the LY before the beginning of the next fiscal year which, in Taiwan, coincides with the calendar year.

[1](#)8. (SBU) The Procedure Committee is required to place the budget bill on the LY agenda and refer it to the relevant committee. (Note: there is no such requirement for a special budget. End Note.) While there is no specific time limit for this, the Procedure Committee traditionally meets immediately after the start of the LY session and places the budget bill on the LY calendar within one week.

9. (SBU) The FY 2006 regular defense budget, containing the PAC-III missiles, is currently "in committee" undergoing deliberation, in this case by a Joint Defense-Budget Committee. According to LY Rules, legislators cannot "add, shift or delete" budget items in committee or on the LY floor. Legislators can, however, reduce funding at any stage and even effectively eliminate a budget item by reducing its funding level to zero, a possibility for the PAC-III missiles, given strong Pan-Blue opposition to their acquisition. The full LY, however, can restore cuts made to a budget item in committee.

10. (SBU) The government itself can alter a regular budget item in two ways. First, the EY can take the highly unusual step of recalling the entire 2006 government budget proposal in order to revise and resubmit it to the LY. This rare procedure last occurred in October 2000, EY Budget Bureau Senior Specialist Lin Shen-yu told AIT, when new Premier Chang Chun-hsiung recalled, revised, and resubmitted the 2001 Central Budget in two weeks; this was done, however, at the specific request of the LY. Second, after the LY approves the budget, the government can submit an "extra budget" to increase funding for any portion of the approved budget.

Comment: Options for Budget Alteration Limited

11. (SBU) The prospects for reconfiguring the three weapons systems of the original Defense Procurement Special Budget are specific and limited. The PAC-III missile proposal in the regular defense budget can be approved at the proposed funding level (NT\$130 billion) or reduced, even "zeroed out," in committee or on the LY floor. The government itself can reconfigure the P-3C's and submarines in the Defense Special Budget relatively quickly, since the Defense Special Budget has never been passed by the Procedure Committee and placed on the LY agenda. Other than reducing proposed funding levels, the LY itself can neither alter nor reconfigure either the regular or the special defense budget.

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